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CONCENTRATION OF PRODUCTION AND THE SIZE OF INDUSTRIAL ENTERPRISES

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CONCENTRATION OF PRODUCTION AND THE SIZE OF INDUSTRIAL ENTERPRISES

Concentration of production, being the process of amalgamating the output of commodities at enterprises of an ever increasing size, is a major law of developing material production.

The level of production concentration in industry should be measured by the share of large enterprises in the output value or in the quality of products in a given industry. The proper size of an enterprise can be determined only by its annual output. The number of the personnel, the cost of plant and equipment define but indirectly the size of enterprises and cannot be used for fixing their optimal size .

An increase in the size of enterprises and intensification of the process of production concentration in industry follows from the economic advantages of large-scale production and from the law-governed tendencies to technical progress. Enlargement of units and equipment , and an increase in their capacity and productivity is inherent in the development of techniques of industrial production. Such a tendency to technical progress is brought about by the requirements of the economics of production and the task of all_round saving of social labour as the major criterion of development of social production. The greater the capacity and productivity of equipment the better the records of their economic effectiveness of their production and operation.

The economic advantages of large enterprises are manifested under certain conditions only. These are: higher technical level of production in proportion to its increased volume,and specialization of production. With techniques and the diversity of the articles produced unchanged, enlargement of enterprises may even entail a worsening of economic criteria.

The advantages of large enterprises can be derived only in such cases when such enterprises are optimal in the given industry. The maximum possible use of equipment, the most up-to-date in the given industry, and application of modern technology and organization of production should be regarded as the criterion of optimal enterprises. Such a size of an enterprise should also be considered optimal, in which the best possible technical and economic indications of the work of the enterprise are achieved.

At the same time the advisable size of enterprises also depends on the specific features of their location. But whatever the local conditions, the size of an enterprise should be such as to make the utmost use of the latest techniques and organization of production.

When fixing the optimal size of enterprises, account should be taken of the economic peculiarities of various

industries, notably: the kind of equipment and technology of production, the structure of operational costs and the amount of capital required in the industry.

If so viewed, all industries should be divided into three groups:

The first group comprises industries in which an increase in the size of enterprises depends on the expansion in the capacity of equipment. Such industries include the iron and steel industry, electric power stations and the chemical industry. The sizes of individual enterprises in these industries differ not so much by the amount of equipment of the same type as by the capacity of the units. The larger the enterprise, the better all the technical and economic records.

The industries of this group require considerable amounts of capital. Specific capital investments define the degree of economic effectiveness of such enterprises, while the cost of products overwhelmingly depends on the extent to which the capacity of the enterpises is used.

The second group embraces industries in which an increase in the size of an enterprise is not caused by a greater capacity or productivity of equipment. The sizes of individual enterprises in these industries differ but by the amount of equipment of the same type. This group of industries includes: the textile, the leather and shoe, and clothing industries, and some branches of the engineering industry. The technological process is the same at enterprises of different sizes. As a result, the standards of equipment output and of labour product consumption do not depend on the size of the enterprise.

Such industries consume great quantities of supplies. The share of wages in the cost of products is relatively small in these industries. Overhead charges form a small proportion of the total production costs. In view of this, enlargement of enterprises in such industries does not affect substantially any reduction in operating costs. Reduced cost of products in such industries is primarily achieved by economizing raw materials and other supplies, and such savings do not depend on the size of an enterprise.

The third group comprises extracting industries in which the size of the enterprise depends above all on the mining, technical and geological conditions of its location. But as such industries require a lot of capital, the criterion of specific capital investments and of the use of plant and equipment is most important in these cases in determining the effectiveness of capital investments. In such industries as coal mining and ore mining, the proportion of wages in the costs of output is rather high. A reduction in the costs of output in such industries is primarily obtained by a lower amount of wages, which can be achieved only when labour productivity rises. And the level of the latter is directly dependent on the size of enterprises in extracting industries.

S - 549 E - Dec. 1962 - 1,600